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The myth of economic globalisation

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Geographic patterns of commodity trade and foreign direct investment are not consistent with the proposition that European economies are experiencing a process of increasing 'globalisation'. Internationalisation is taking place as economic integration within the European Union. During the last 35 years, the European Union has not become relatively more integrated with the world's other trade blocs. Moreover, in contrast to what globalisation theory might cause us to predict, the share in foreign direct investment taken by low-wage countries shows little growth. We try to explain such findings, using arguments about the nature of the process of technological change.

1. Introduction

In recent years, there has been a great deal of writing about an increasing 'mondialisation' or 'globalisation' of the world economy. Both recent progress in information and communication technology and internet hype have created the impression that geographic distance is losing significance for business. Moreover, the relatively successful industrialisation of several low-wage Asian countries has given rise to concern that an increasing challenge from international competition might undermine employment and welfare in Europe.

It has frequently been argued that, in the context of increasing global competition, Europe is suffering from competitive disadvantages relating to such factors as too high (and downwardly rigid) wages, too much regulation ('Eurosclerosis'), a heavy social security tax burden and a too generous protection of the people by the welfare state, preventing an adequate working of the labour market. In this paper we do not intend to elaborate on the role of such factors for unemployment in Europe. However, if there indeed exists an increasing threat from global competition, it is obvious that such arguments would have far-reaching implications for economic and social policy in the European Union.

Arguments about economic globalisation very often are based on case studies and anecdotal evidence, while little effort seems to have been made to examine representative economic statistics. In Section 2 we start by looking at standard statistical sources, arguing that geographic patterns of foreign trade and foreign direct investment of EU countries are *not* consistent with globalisation theory. We conclude that internationalisation is

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taking place as economic integration within the EU bloc. The European Union can be characterised as a closed economy and its relative dependence on trade with the world's other trade blocs has not increased since the early 1960s. Furthermore, to the extent that trade exceeds the frontiers of the European Union, the lion's share of transactions still takes place among the rich OECD countries, notably with the US. Looking at long-run trade figures, one can also question the proposition that we are currently experiencing an historically unique stage of internationalisation.

In our final section, we argue that there are good theoretical reasons to doubt the globalisation hypothesis. In doing so, we refer to Alfred Marshall's 'industrial districts' and to more recent literature about the nature of technological knowledge and about technological spillovers. We argue that, at least for innovative and knowledge-intensive business, the forces behind 'regionalisation' (or even 'localisation') may be stronger than those promoting 'globalisation'.

2. Patterns of foreign trade and investment

2.1 Foreign trade in the long run (1913–94)

Are we experiencing a unique stage of internationalisation of the world economy? As a rough indicator of internationalisation, Table 1 shows the sum of exports plus imports as a percentage of GNP of a number of advanced industrialised countries.

In 1973, exports and imports as a percentage of GNP in most countries were lower than in 1913. This was due to the fact that international trade had suffered from two world wars and from protectionism induced by the economic slowdown after 1929. Although world trade has been recovering since the 1950s, some countries in 1994 had not even reached the 1913 levels. This conclusion coincides with that drawn by Hirst and Thompson (1996), using slightly older data (from the 1987 edition of Maddison's book).

Three objections can be made to the data in Table 1. The first objection refers to aggregation. Van Paridon (1996) argued that, owing to structural change in the economy (the rise of the service sector), long-run macro figures may be misleading. Irwin (1996) formulated the same argument, as follows:

> [O]nly agriculture, mining, and manufacturing really produce merchandise goods that enter into…[foreign] trade statistics. Over the past few decades, the sectoral composition of…GNP has shifted away from the production of merchandise goods toward the production of services… This shift could mask the growing significance of trade within the traded-goods sector. (p. 42)

Table 1. *Exports and imports of goods as a percentage of GNP (current prices)*

	1913	1950	1973	1994
France	30·0	21·4	29·2	34·2
Germany	36·1	20·1	35·3	39·3
UK	47·2	37·1	37·6	41·8
Netherlands	(100)*	70·9	74·8	89·2
USA	11·2	6·9	10·8	17·8
Japan	30·1	16·4	18·2	14·6

*The figure of 100% reported by Maddison has been called into question by Lindblad and van Zanden (1989, pp. 231–69). After a (rough) correction for Dutch transit trade, they suggest that the real figure should be around 60%.
Source: Maddison (1991, p. 149).

This argument implies that, owing to technical progress in communication and transport, those sectors which are the traditional carriers of international trade have indeed increased their international operations; however, the relative importance of these sectors to the total economy is declining, mainly owing to the rise of service industries which tend to concentrate on national, regional and local markets.

One wonders, however, whether this argument can rescue globalisation theory. It can explain why shares of foreign trade in GNP are growing much more modestly than expected by globalisation theorists. If we take, as a measure of 'globalisation', the number of people whose jobs depend on exports (or could be threatened by import penetration), we have to take into account the fact that service activities tend to be more labour-intensive than manufacturing or agricultural production. Therefore, owing to the growing weight of services in the total economy, a modestly growing share of exports in GNP might easily coincide with a stagnant (or even declining) share of jobs affected by foreign trade.

In the second place, one can argue that Table 1 understates the 'true' degree of internationalisation, since *current* prices are used. Export-oriented businesses usually have a stronger technological dynamism and show higher rates of productivity growth than 'sheltered' sectors that are oriented towards domestic markets. In the long run, the difference in technological performance between 'sheltered' and 'exposed' sectors will result in inflation-rate differentials, implying that inflation rates of GNP tend to be higher than inflation rates of exports. Hence, when using the ratio of exports to GNP at *current* prices, the degree of internationalisation appears to be much lower than when using *constant* prices (Mensink and van Bergeijk, 1996, p. 914).

This would be a valid objection if we were to study economic growth over time (with an implicit emphasis on *physical* quantities). However, we are interested in the relative *economic* importance of domestic *versus* foreign transactions. Insofar as inflation rate differentials reflect 'real' factors such as market power or productivity growth differentials, prices *actually realised* give a more realistic impression of the relative importance of an economic activity. It is therefore questionable whether exports and GNP in Table 1 should be deflated, making it clear that statistical agencies tend to report exports and imports as percentages of GNP in *current* prices.

While deflated series tend to show a much increased importance of foreign trade as a percentage of GNP (see Mensink and van Bergeijk, 1996, p. 914), the data in current prices (Table 1) show that the relative importance of foreign trade is at present not exceptionally high by historical standards. Nevertheless, exports and imports have gained importance since the 1950s even according to our Table 1. Does this prove that we are living in a stage of 'globalisation'? This brings us to the third possible objection against the figures in Table 1. The figures do not distinguish between world regions. The growing importance of foreign trade to a national economy could, in principle, be the result of a growing degree of internationalisation *within* a regional trade bloc (e.g., the EU, ASEAN etc.). Alternatively, it could result from growing (world-wide) transactions *across* regional trade blocs. Only in the latter case would it be justified to speak of a process of globalisation (other than regional integration) of the world economy.

2.2 Geographic patterns of trade (1960–95)

In order to examine the globalisation/regional integration issue, it is necessary to examine imports and exports by region of origin and destination. In our examination we limit our attention to the European Union. Table 2 shows exports of EU countries (as a percentage

Table 2. *Exports of goods by EU countries to other EU countries (percentage of GDP, current prices)*

Country of origin:	1960	1970	1980	1990	1995
Belgium/Luxembourg	19·6	34·3	39·6	45·7	43·9
Denmark	14·1	13·4	16·5	17·4	15·4
(West) Germany	6·4	11·0	14·3	16·9[+]	11·8[#]
Greece	2·1	3·0	5·3	6·6	5·3
Spain	3·7	3·3	5·3	8·0	11·8
France	4·3	7·5	9·7	11·4	11·6
Ireland	18·8	19·7	33·1	41·1	45·2
Italy	3·7	6·8	9·6	9·6	11·9
Netherlands	20·8	26·5	32·9	34·8	32·2
Austria	10·1*	11·1	13·5	17·9	15·5
Portugal	4·5	7·1	10·6	19·7	17·4
Finland	10·7*	13·5	15·8	11·9	18·0
Sweden	10·9*	12·2	14·4	15·5	20·5
United Kingdom	3·3	6·1	10·6	10·9	12·1
EU-12 (excl. AT, SE and FI)	6·0	9·9	13·4	14·7[+]	14·4[#]
EU-15	7·8*	10·1	13·5	14·7[+]	14·6[#]

*1963; [+]including West Germany; [#]including East and West Germany.
Source: European Commission (1996).

Table 3. *Exports of goods by EU countries to non-EU countries (percentage of GDP, current prices)*

Country of origin:	1960	1970	1980	1990	1995
Belgium/Luxembourg	12·7	9·6	12·3	12·5	14·6
Denmark	10·6	7·4	8·2	9·5	10·9
(West) Germany	9·5	7·5	9·3	9·5[+]	9·0[#]
Greece	2·7	2·3	5·3	3·1	3·9
Spain	2·6	3·0	4·5	3·2	4·5
France	6·9	4·9	7·0	6·1	6·7
Ireland	4·5	5·0	9·1	11·6	16·2
Italy	5·5	5·5	7·6	5·8	9·2
Netherlands	13·2	8·1	9·9	11·4	12·6
Austria	6·5*	8·6	9·2	8·5	8·3
Portugal	7·1	6·4	5·6	4·7	4·3
Finland	6·5*	7·7	11·6	7·9	13·7
Sweden	6·7*	8·0	10·0	9·4	14·7
United Kingdom	11·0	9·5	10·7	8·1	9·1
EU-12 (excl. AT, SE and FI)	8·7	6·8	8·5	7·5[+]	8·6[#]
EU-15	6·1*	6·9	8·6	7·6[+]	8·9[#]

*1963; [+]including West Germany; [#]including East and West Germany.
Source: European Commission (1996).

of GDP) to other countries of the European Union, while Table 3 shows exports of EU countries to non-EU countries. It becomes obvious from Table 2 that trade among EU partners has strongly gained in importance since the 1960s, whereas the relative importance of exports to non-EU partners (Table 3) has tended to stagnate. Table 3 shows that only a few EU countries increased trade (as a percentage of GDP) with non-EU partners; in most countries, the relevant percentages stagnated or even diminished.

Table 4. *Inside EU goods trade vs. outside EU goods trade as a percentage of GDP, market prices (EU-12)*

	Inside EU exports	Outside EU exports	Inside EU imports	Outside EU imports
1960	6·0	8·7	6·0	9·8
1965	8·0	6·1	8·0	7·8
1970	9·9	6·8	9·9	8·0
1975	11·6	8·2	11·4	9·4
1980	13·4	8·5	13·1	11·3
1985	15·1	10·0	14·8	10·9
1990	14·7	7·5	14·6	8·5
1995	14·4	8·6	13·3	8·6

Note: Export and import figures can deviate since exports are registered 'free on board' (fob) while imports are registered 'cost, insurance and freight' (cif). Van Bergeijk and Mensink (1996) suggest that import figures are downward-biased because of the historical decline of transportation and insurance costs. We should therefore concentrate our interpretation on export figures.
Source: European Commission (1996).

Figures on imports which can be found from the same source (European Commission, 1996) show a similar pattern.

Table 4 summarises exports and imports for the entire European Union (EU-12); it shows clearly that, during the 1960s and 1970s, and for the whole EU-12, intra-EU exports as a percentage of EU GDP more than doubled. The same holds for imports.[1] Exports from the EU-12 to *non*-EU countries stagnated, while the percentage share in GDP of imports from non-EU countries even declined slightly. Such evidence for the whole European Union invalidates the possible objection of globalisation theorists to a selective use of country data: goods imported by an individual EU country from another EU country might consist of substantial amounts of intermediate inputs originally imported from non-EU countries.[2]

In summary, the three tables show a clear trend towards 'Europeanisation' of export and import relations over the past 35 years, while the relative importance of trade with non-EU partners is modest and has stagnated since 1960. In other words, the EU as a trade bloc does not appear to be more integrated with the world economy, as suggested by globalisation theorists. Given that less than 10% of the European Union's GDP tends to be exported to non-EU countries, it is no exaggeration to characterise the European Union as a closed economy. The above tables also imply that the increase in the overall importance of foreign trade in European countries shown in Table 1 is to be ascribed to a process of 'regionalisation' (or European integration) rather than to 'globalisation'.

2.3 Foreign direct investment

Globalisation theory could still be defended by suggesting that the process of globalisation is not adequately measured by foreign trade figures. The core of the globalisation process might be argued to be the movement of capital rather than of exported goods across the

[1] It is remarkable to note, however, that European trade integration has seemed to stagnate since the mid-1980s, in spite of the 'Europe 1992' operation.

[2] For example, German imports from Belgium would be counted as imports from the EU, while containing substantial components imported by Belgium from Korea.

globe. Instead of exporting goods, one builds factories. In principle, one could even argue that the non-globalisation pattern in export/import relations, as observed above, can be explained by the increasingly global orientation of foreign direct investment. In other words, globalisation theory could be rescued by demonstrating that (export-substituting) foreign direct investment is increasingly global in scope. In order to examine this proposition, we take a look at data regarding the destination of the FDI of European countries.

Of course, data on foreign direct investment have their limitations as a test of globalisation theory. First, FDI registers changes on the liability side of a firm's balance sheet, not on the asset side, which is the interesting one. Second, FDI does not show what the foreign investors are simultaneously doing at home. Third, the necessary reservations with respect to the statistical quality of FDI data have to be mentioned (see Vukmanic *et al.*, 1985). Ideally, one should analyse FDI at the firm level in order to draw conclusions with respect to international production. Unfortunately, our data are available only at the aggregate level. It is a strength, however, that we can split the data by major world regions. If the globalisation theorists are right, the data split by world regions should show large and increasing amounts of FDI as being 'global' (rather than European) in scope.

Systematic figures on the development of foreign direct investment are sparse. We found information on Germany (from the *Monatsberichte der Deutschen Bundesbank*), on Great Britain (from the Office of National Statistics) and on The Netherlands (from the Annual Report of the Central Bank, *DNB*), while the OECD published data on France.[1] These data are shown in Tables 5–8.

These tables show a quite diverse picture, and inferences about time trends need to be drawn with caution since the series are short and erratic. The French and German figures show a substantial increase of foreign direct investment from the 1980s to the present which, in principle, is what globalisation theorists would expect. This does not hold for the UK and The Netherlands, however, where the FDI figures are more or less stagnant.

For a judgement about globalisation theory, the development of total FDI as well as its destination is important. Globalisation theory implies that a growing share of FDI is world-wide in scope, and that low-wage countries, in particular, should attract increasing shares. This is clearly not the case. The only exception might be the share of British FDI in underdeveloped countries which showed a slight increase from 1987 to 1994. Given the short observation period and the erratic nature of investment data, however, we have to be cautious with this conclusion. The French and Dutch data do not show an increasing share in underdeveloped (or in the French case: non-OECD) countries of total FDI, while the German data reveal a declining share in 'developing and transition countries' of the growing volume of FDI.

The lion's share of German FDI is directed towards EU countries and the EU share seems to grow over time. It might be debated whether the French and UK data show a similar trend towards a growing European share of their FDI or whether this remains

[1] The various issues of the *OECD Review of Foreign Direct Investment* are far from complete. In addition to the data on France, we found less systematic pieces of information on smaller EU countries. These pieces seem to confirm that FDI to the poorer countries often referred to as 'non-OECD') plays a minor role. For example, Finland directed 11% of its FDI to non-OECD countries between 1982–87 and 10·4% in 1988–94. In Denmark, the corresponding percentages are 5·8% (1985–92) and 11% in 1993, and in Portugal 12% in 1986–92. However, other countries show somewhat higher percentages. The share of non-OECD countries in Italy's FDI was 27·6% in 1982–86 and 32·3% in 1987–92. In Switzerland, the corresponding figure for 1994 is 21·2% and for Norway the figures are 43·5% in 1986 and 19·6% in 1993. Whether the latter three cases give support to globalisation theory remains doubtful. A good judgement would require data over longer time periods, since FDI figures (as all investment figures) tend to show strong variations over time.

Table 5. *Foreign direct investment of UK companies by world regions*

	Total UK FDI; £bn; current prices	Percentages of which were directed to: EU and Western Europe	non-European developed countries	rest of world	of which: developing countries[#]	of which: Asia*
1987	19·159	15·3	74·5	10·1	10·1	2·4
1988	20·916	27·3	63·4	8·4	8·3	2·3
1989	21·491	26·1	63·2	10·6	10·6	2·6
1990	10·108	57·4	20·6	22·0	21·5	6·5
1991	9·304	42·6	41·4	16·0	15·8	9·2
1992	10·107	48·3	23·7	28·0	27·7	9·4
1993	16·859	36·3	50·3	13·5	13·2	9·8
1994	18·514	36·3	40·6	23·1	21·4	9·9

* excluding Japan; [#] excluding Eastern Europe.

Table 6. *Foreign direct investment of German companies by world regions (current prices)*

	Total German FDI; billion DM	Percentages of which were directed to: EU-12 countries	other industrial. countries	developing and transition countries	of which 4 Asian tigers[#]
1979	69·5	39·6	37·3	23·2	0·9
1981	101·2	36·0	38·5	23·3	1·2
1987	150·9	40·8	46·3	12·9	2·2
1989	205·6	43·7	45·2	11·1	2·3
1991	262·7	51·0	38·3	10·7	2·2
1993	319·4	48·0	39·5	12·6	2·4

[#]Hong Kong, Singapore, South Korea, Taiwan.

Table 7. *Foreign direct investment of French companies by world regions (current prices)*

	Total French FDI; billion francs	Percentages of which were directed to: EU-12 countries	other Europe	USA and Canada	other OECD countries	non- OECD countries
1986	32·115	33·5	7·6	44·8	2·6	11·5
1987	49·012	53·9	4·7	33·4	1·7	6·3
1988	73·018	63·5	5·8	25·4	1·2	4·1
1989	109·521	62·2	4·2	26·6	2·1	5·0
1990	142·813	67·9	5·3	22·6	1·0	3·2
1991	108·531	53·0	11·2	28·6	1·0	6·2
1992	92·408	80·0	2·3	7·9	1·7	7·1
1993	52·289	55·3	4·4	14·2	1·9	24·2
1994	51·483	54·8	-2·2	30·0	2·6	14·8
1980–85	16·398	29·7	6·3	48·3	2·3	11·6
1986–94	79·021	61·2	5·2	24·1	1·6	7·9

Table 8. *Foreign direct investment of Dutch companies by world regions (current prices)*

	Total Dutch FDI billion guilders	Percentages of which were directed to: EU-12 countries	USA	Japan	Eastern Europe	Developing countries	of which: S. E. Asia*
1977	3·815	46·1	13·2	0·1		32·2	
1978	5·596	49·2	28·5	0·3		16·8	
1979	6·519	57·4	28·8	0·0		6·8	
1980	7·803	58·1	22·1	0·2		10·9	
1981	9·114	56·5	21·4	0·2		10·2	
1982	7·015	49·7	35·2	0·0		9·3	
1983	6·027	60·4	28·6	1·5		7·7	
1984	8·172	68·6	17·1	0·7		8·7	
1985	9·461	36·4	36·8	1·9		24·6	
1986	7·401	70·5	20·5	–0·7	–0·2	4·7	1·6
1987	14·086	42·4	48·1	0·2	–0·04	4·6	0·8
1988	8·741	29·0	34·5	1·4	0·1	18·7	2·9
1989	24·120	51·8	30·4	0·2	0·1	11·1	5·2
1990	24·742	57·9	22·7	1.·5	0·05	9·9	2·3
1991	23·046	67·5	14·7	1·6	1·3	9·3	5·7
1992	24·953	62·1	23·3	–0·1	3·2	5·4	1·6
1993	19·312	77·4	11·6	–14·5	5·3	10·9	3·2
1994	21·677	74·1	0·5	-0·3	3·4	—	9·5
1995	19·952	57·9	11·7	4·0	10·1	—	5·5

*China, Philippines, Hong Kong, Indonesia, Malaysia, Singapore, Taiwan, Thailand and South Korea.

more or less unchanged. In any case, we can conclude that the European share of their FDI does not diminish, and this also applies to The Netherlands. Again, this is not what globalisation theorists would expect.

In conclusion, the export figures documented above show an increasing European rather than 'global' scope, which is in conflict with globalisation theory. One could still debate whether an increasing European scope also holds for FDI. This is certainly the case for Germany. In the French, British and Dutch cases, the trend towards 'Europeanisation' of FDI is less pronounced. However, whatever our detailed interpretation of the data, they do not, in any case, show a trend towards increasing 'mondialisation' or 'globalisation'. We conclude that export and FDI figures show little evidence of increasing integration between the European trade bloc and the world's other trade blocs.

Our observation that structural change goes in the direction of increasing 'Europeanisation' rather than 'globalisation' is consistent with the conclusions reached by Ruigrok and van Tulder (1995A, 1995B**)**. In an analysis of the structure of the world's 100 largest multinationals (i.e., board of management, internationalisation of assets, sales and employment, sources of finance, home base), these authors conclude that even companies that operate world-wide still focus strongly on their home countries. Moreover, Patel and Pavitt (1991) consider their own analysis of the technological strategies of the world's largest firms to be 'an important case of *non*-globalisation' (subtitle). In a recent update of the Patel and Pavitt study, Patel concludes that 'there is no systematic evidence to suggest that widespread globalisation of technological activities occurred in the 1980s. The evidence…shows that…technology production remains close to the home base' (1995, p. 141).

Critics may argue that this paper does not consider the large streams of speculative capital in money markets and stock exchanges which may be 'global' in scope. Moreover, we have not examined the hypothesis of increasing convergence of factor prices on a world scale. This would certainly provide material for another paper. In the meantime, globalisation theorists should be concerned about non-globalisation patterns in at least three important areas which require explanation: (1) the international trade of goods; (2) foreign direct investment; and (3) technological strategies of multinational firms.

3. Possible explanations of the non-globalisation process

The notion that 'footloose' capital will move around the globe to those places where profit opportunities are most favourable suggests that, owing to a possible combination of Western technology and extremely low wages, low-wage countries should be in a strong position when competing for foreign investors. Their ability to attract foreign investment should be further enhanced by recent advances in information and communication technology which make the management of world-wide operations ('global sourcing') even cheaper and more efficient. Why, then, are transactions with low-wage countries of such modest importance to rich countries?

In economic theory, there are some well-known arguments about why firms and industries are not as footloose as globalisation theorists might expect. Three important arguments go back to Alfred Marshall's notion of 'industrial districts' and have recently been discussed by Krugman (1991). Marshall distinguished three different reasons why firms in an industry would concentrate in the same region:

(i) concentration in the same region will provide a pooled market for workers with specialised skills; such a pooled market benefits both workers and firms;

(ii) an industrial district allows for the provision of a greater variety of inputs by specialised suppliers;

(iii) inter-firm information flows are enhanced by physical proximity. In today's language, by concentrating within an industrial district, firms can more easily take advantage of each others' technological spillovers (for a detailed elaboration on these three topics see Krugman, 1991).

In the following we add a few notes on the latter point. First, it should be mentioned that the idea of technological spillovers is supported by empirical evidence. It has been shown that, due to knowledge spillovers, agglomerated regions in highly developed countries are better 'breeding places' for innovation than are rural areas (see, for the US, Feldman, 1994 and Jaffe, 1986; for the Netherlands see Brouwer and Kleinknecht, 1996 and Oerlemans, 1996).

Second, there are pieces of knowledge from innovation research which suggest that a knowledge-intensive business is not as footloose as one might expect from an orthodox neoclassical view. An important argument relates to so-called 'tacit' knowledge. It has been suggested, in addition to formalised, well-documented and tradable knowledge, that 'tacit' knowledge plays an important role in innovative activities. Tacit knowledge is based on practical experience with certain technologies. It has also been characterised as 'implicit', 'idiosyncratic' or 'uncodified' knowledge. It is not available in textbooks or training courses, but it may be transferred from person to person (see the survey by Dosi, 1988).

These properties of 'tacitness' have a number of implications for firm behaviour, one of which is significant in the context of this paper: the transfer of tacit knowledge requires

personal contact and physical proximity. Nooteboom (1996) suggests that, notably in the early stages of development of new technologies, tacitness may be important, while technological knowledge in a riper stage will increasingly be more formalised, better documented and more easily transferable across geographical distance.

This latter point contributes to the above-sketched Marshallian idea of 'industrial districts'. Neo-Schumpeterian (or evolutionary) theorists stress the crucial role of variety for innovative activities within such industrial districts; in other words, networking interactions in close geographic space of firms and persons with different types of 'idiosyncratic' tacit knowledge may promote innovation (e.g., Nooteboom, 1992). Such arguments about tacit knowledge may explain why, for innovative business, local or regional embeddedness is more important than the factor price differentials that are so dominant in traditional neoclassical thinking and which can lead one to believe in 'globalisation'.

An additional argument in this context is that 'high tech' often requires 'high touch'. For instance, repair and maintenance services (e.g., the mastering of machine breakdowns) often cannot be performed through a satellite connection. They require the physical presence of specialists; moreover, in communication about subtle technical details, language barriers and cultural differences can be important thresholds. Adherents of modern endogenous growth theory would add that, besides cultural differences, the most important threshold for the diffusion of modern technology in low-wage countries is the notorious lack of qualified labour. Other arguments could be added, such as the quality of the public infrastructure and public services (political stability, corruption, etc.) or a firm's wish to enjoy the proximity to wealthy consumer markets.

Of course, all the above arguments are not really new, but those who still believe in 'footloose' capital as a cause of 'globalisation' need to be reminded of them. Such arguments make it clear why, in spite of impressive differences in factor prices (and notably in wages), industry is much less footloose than might be expected from simple versions of neoclassical theory. However, even neoclassical economists should be reluctant to believe that the Asian 'tigers' can combine highly productive labour (using modern Western technology) with extremely low wages, simply because wages tend to equal marginal productivity. Moreover, Krugman (1996) recently and convincingly criticised the notion of competition between countries. He also pointed out that the popular fear that Asian tigers would threaten employment and welfare in Europe, by producing tremendous export surpluses and, at the same time, becoming net importers of capital, is to be ascribed to a lack of knowledge of the basics of international trade theory.

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